



## **This document has been provided by the International Center for Not-for-Profit Law (ICNL).**

ICNL is the leading source for information on the legal environment for civil society and public participation. Since 1992, ICNL has served as a resource to civil society leaders, government officials, and the donor community in over 90 countries.

Visit ICNL's **Online Library** at  
<http://www.icnl.org/knowledge/library/index.php>  
for further resources and research from countries all over the world.

### Disclaimers

**Content.** The information provided herein is for general informational and educational purposes only. It is not intended and should not be construed to constitute legal advice. The information contained herein may not be applicable in all situations and may not, after the date of its presentation, even reflect the most current authority. Nothing contained herein should be relied or acted upon without the benefit of legal advice based upon the particular facts and circumstances presented, and nothing herein should be construed otherwise.

**Translations.** Translations by ICNL of any materials into other languages are intended solely as a convenience. Translation accuracy is not guaranteed nor implied. If any questions arise related to the accuracy of a translation, please refer to the original language official version of the document. Any discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes.

**Warranty and Limitation of Liability.** Although ICNL uses reasonable efforts to include accurate and up-to-date information herein, ICNL makes no warranties or representations of any kind as to its accuracy, currency or completeness. You agree that access to and use of this document and the content thereof is at your own risk. ICNL disclaims all warranties of any kind, express or implied. Neither ICNL nor any party involved in creating, producing or delivering this document shall be liable for any damages whatsoever arising out of access to, use of or inability to use this document, or any errors or omissions in the content thereof.

Disclaimer: The English language text below is provided by the Translation and Terminology Centre for information only; it confers no rights and imposes no obligations separate from those conferred or imposed by the legislation formally adopted and published. Only the latter is authentic. The original Latvian text uses masculine pronouns in the singular. The Translation and Terminology Centre uses the principle of gender-neutral language in its English translations. In addition, gender-specific Latvian nouns have been translated as gender-neutral terms, e.g. chairperson.

Text consolidated by Tulkošanas un terminoloģijas centrs (Translation and Terminology Centre) with amending laws of:

12 October 1995;  
5 June 1996;  
29 February 1996;  
13 March 1997;  
13 November 1997;  
11 March 1998;  
10 September 1998;  
4 February 1999;  
25 November 1999;  
30 March 2000;  
23 November 2000;  
8 February 2001;  
22 November 2001.

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*<sup>1</sup> has adopted and  
the President has proclaimed the following Law:

## On Enterprise Income Tax

### Chapter I General Provisions

#### Section 1. Terms Used in this Law

- (1) Terms used in this Law correspond to the terms used in the Laws On Taxes and Fees, On Accounting, On Annual Accounts of Undertakings, the Credit Institution Law, the Savings and Loan Societies Law and the Law On Insurance Companies and their Supervision unless provided otherwise by this Law.
- (2) **Domestic undertakings** – within the meaning of this Law, all undertakings and companies as are considered residents in accordance with the Law On Taxes and Fees.
- (3) **Affiliated undertakings** – within the meaning of this Law, two or more undertakings, if:
- 1) they are parent and subsidiary undertakings;
  - 2) the participatory share of one undertaking in another undertaking is 20 to 50 per cent and, in addition, such undertaking does not have a majority vote;
  - 3) more than 50 per cent of the value of share capital or of shares of the undertaking in each of these two or more undertakings is owned by, or a decisive influence over these two or more undertakings is ensured by a contract or otherwise (there is a majority vote) to:
    - a) one and the same person or relatives of such person to the third degree or the spouse of such person, or those in affinity with such person to the second degree,
    - b) more than one, but, not more than 10, one and the same persons, or

<sup>1</sup> The Parliament of the Republic of Latvia

- c) an undertaking wherein the natural person (or his or her relatives to the third degree or spouse, or those in affinity with such person to the second degree) owns more than 50 per cent of the value of the share capital or of the shares of such undertaking;
- 4) one and the same person or one and the same persons have a majority vote in the boards of such undertakings; or
- 5) in addition to a contract regarding a specific transaction an agreement in any form has been entered into (including an agreement that has not been made public) between these undertakings regarding whatsoever additional remuneration not foreseen in the contract, or such undertakings perform other types of concerted activities with intent to reduce taxes.
- (4) **A person** – within the meaning of this Law, a natural or a legal person, or a group of such persons or representatives of such persons or groups bound through a contract.
- (5) **A person affiliated with an undertaking** – within the meaning of this Law, a person (his or her relatives to the third degree or spouse, or those in affinity with such person to the second degree) who owns more than 50 per cent of the value of the share capital or shares of an undertaking, or a person (his or her relatives to the third degree or spouse, or those in affinity with such person to the second degree) whose decisive influence over an undertaking is ensured by a contract or otherwise.
- (6) **Dividends** – within the meaning of this Law, income in cash or other form (in kind) from stocks, shares, capital shares of an undertaking or other rights, not resulting from debt obligations, to participate in the distribution of profits of such undertaking. This term shall not apply to income in cash or other form (in kind) received in the event of liquidation of the undertaking.
- (7) **Interest income (fruits)** – within the meaning of this Law, income from any debt obligations, income from government emitted securities, and income from bonds or promissory notes, including premiums and bonuses pertaining to such securities, bonds or promissory notes.
- (8) **Payment for intellectual property** – within the meaning of this Law, any payment received as remuneration for any copyright (including neighbouring rights), or for the right to use copyright (including neighbouring rights) to a literary, scientific or artistic work, including computer programs, films, video films or sound recordings, any patent, trademark, sample design or model, plan, secret formula or process, or for the right to utilise manufacturing, commercial or scientific equipment or for utilisation thereof, or for information in respect of industrial, commercial or scientific activity and experience.
- (9) **Economic activity** – within the meaning of this Law, activity directed at manufacture of goods, performance of work, trade, provision of services or other form of activity for remuneration.
- (10) **Tonnage tax** – an enterprise income tax, which, on the basis of a ship's net tonnage (hereinafter – tonnage) and confirmed by a valid International Tonnage Certificate (1969), is calculated and paid by the tonnage taxpayer.
- (11) **International Tonnage Certificate (1969)** – a document, which is issued on the basis of the 1969 International Convention on Tonnage Measurement of Ships, and which certifies a ship's net tonnage.
- (12) The utilisation of a ship for international carriage and activities associated thereto are:
- 1) the utilisation of a ship which owned by a tonnage tax payer, in joint ownership or held on the basis of a bareboat charter contract for the carriage of cargo or passengers operating to foreign ports, between foreign ports or in foreign ports if the ship, in the taxation period, is utilised for at least 75% of operating time for such purposes;
  - 2) in the ship utilisation taxation period referred to in Clause 1 of this Paragraph, the carriage of cargo or passengers between Latvian or foreign ports and places outside the territorial waters of Latvia, including places where natural resources are investigated or

acquired if the ship, in the taxation period, is utilised for at least 75% of operating time for such purposes;

3) in the ship utilisation taxation period referred to in Clause 1 of this Paragraph, the provision of towing, pushing or rescue services outside of the territorial waters of Latvia, including places where natural resources are investigated or acquired, for ships which perform international carriage; and

4) international carriage by another persons utilised ship strategic and commercial management on the basis of a mutual written agreement in the place of another person if the following conditions are fulfilled:

a) strategic and commercial management is performed simultaneously; and

b) the total amount of the net tonnage of the ships managed in the place of another person (calculated in respect of each calendar day) in the taxation period does not exceed by more than ten times the total amount of net tonnage of the ships owned by the tonnage tax payer, in joint ownership with at least 5 per cent participation (taking into account in the calculations the total tonnage of ships in joint ownership) or ships held on the basis of bareboat charter contracts in the taxation period;

5) international carriage by another persons utilised ship technical management and crew recruitment management on the basis of a mutual written agreement in the place of another person if the following conditions are fulfilled:

a) together with ship technical management or crew recruitment management, or both of the referred to types of management also ship strategic and commercial management is performed; and

b) the conditions referred to in Clause 4, Sub-clause b) of this Paragraph;

6) temporary transfer of the ship referred to in Clause 1 of this Paragraph to another person on the basis of a ship time charter contract or other sea carriage contract (voyage charter contract or carriage of volume of cargo contract);

7) utilisation of ships for international carriage not referred to in Clause 1 of this Paragraph on the basis of a ship time charter contract or other sea carriage contract (voyage charter contract or carriage of volume of cargo contract) if the condition is fulfilled that the net tonnage of the ship (calculated for each calendar day) in the total taxation period does not exceed by ten times the total amount of net tonnage of the ships owned by the tonnage tax payer, in joint ownership with at least 5 per cent participation (taking into account in the calculations the total tonnage of ships in joint ownership) or ships held on the basis of bareboat charter contracts in the taxation period;

8) the loading and unloading of the ships referred to in Clause 1 of this Paragraph, agency, the provision of supplies and other services to these ships;

9) the provision of hotel, casino, restaurant (café, bar), shop activities, domestic services on the ships referred to in Clause 1 of this Paragraph if the condition is fulfilled that these services are performed by the tonnage tax payer; and

10) the utilisation of the ships referred to in Clause 1 of this Paragraph in relation to the alienation of equipment and structures (including buildings and premises in which the tonnage taxpayer performs his or her business).

(13) **Ships operating time** – time included in the taxation period during which a ship is utilised for carriage and the performance of activities associated with this carriage. Ship operating time does not include ship repair and ship lay-up time, as well as the time during which a ship is not operated in relation to being under arrest or due to circumstances caused by *force majeure*.

[10 September 1998; 30 March 2000; 22 November 2001]

## Section 2. Tax Payers

(1) Enterprise income tax payers are:

1) domestic undertakings, which carry out entrepreneurial activity, public and religious organisations, and institutions financed from the State budget or local government budgets, which obtain income from economic activity and to which the requirements of Paragraphs two, three and four of this Section do not apply (hereinafter - residents);

2) foreign undertakings, companies, natural persons and other persons (hereinafter - non-residents); and

3) permanent representative offices of non-residents (hereinafter - permanent representative offices).

(2) Enterprise income tax shall not be paid by State undertakings, institutions financed from the State budget whose income from economic activity is provided for in the State budget, institutions financed from local government budgets whose income from economic activity is provided for in local government budgets, non-profit-making organisations and private pension funds.

(3) Partnerships shall not pay enterprise income tax independently, but each partner in a partnership shall pay personal income tax or enterprise income tax according to the share of profits of the partnership due to him or her. A partnership shall submit a declaration of recipients of distributed profits.

(4) Enterprise income tax shall not be paid by the natural persons and individual (family) undertakings (including farms and fishing undertakings) as do not have to submit annual accounts in accordance with the Law On Annual Accounts of Undertakings. The owners of such undertakings shall also pay personal income tax on the income of the undertaking. These provisions shall not apply to such individual (family) undertakings (including farms and fishing undertakings) as are registered as payers of enterprise income tax within five taxation periods from the taxation period (inclusive) when they were registered as payers of enterprise income tax. If in the last taxation period of such term the income derived from economic transactions is less than 45,000 lati, in the following calendar year after the end of such taxation period this undertaking (including farms and fishing undertakings) may register itself as a payer of personal income tax. Within the time period from the end of the taxation period until the beginning of the following calendar year, the undertaking (including farms and fishing undertakings) shall pay enterprise income tax.

(5) Where Paragraph four of this Section is being applied, if the last taxation period of a term is shorter than 12 months, the revenue from the taxation period must be less than the amount obtained by multiplying one-twelfth of 45,000 lati by the number of months (including incomplete months) during the incomplete taxation period.

[13 March 1997; 25 November 1999]

## **Section 2<sup>1</sup>. Tonnage Tax payers**

(1) Tonnage tax payers are domestic undertakings (companies) to which the State Revenue Service has granted tonnage tax payer status and which:

1) utilise ships owned, in joint ownership or held on the basis of a bareboat charter contract by them for international carriage and activities associated with this, and

2) perform in Latvia for themselves or in conformity with the conditions in Section 1, Paragraph twelve, Clauses 4 and 5, the economic activities to be performed by another person,

the functions which are necessary for strategic, commercial, technical and crew recruitment management.

(2) The Cabinet shall determine the criteria on the basis of which the activities performed by domestic undertakings are recognised as ship strategic management, commercial, technical management and crew recruitment management, and the procedures by which the State Revenue Service grants tonnage tax payer status, and the documents which a domestic undertaking shall submit to the State Revenue Service for gaining the tonnage tax payer status and for ensuring the administration of the tax.

(3) With the next taxation period after the gaining of tonnage tax payer status, the tonnage tax payer shall, in the calculation and payment of the tax, apply Section 6, Paragraph one, Clauses 9 and 10 and Paragraph four, Clause 10, Section 6<sup>1</sup>, Section 22, Paragraph six and Section 23, Paragraph eleven of this Law, and the restrictions specified in Section 15, Paragraph three of this Law shall be applicable to the tonnage tax payer.

(4) The domestic undertaking to which the State Revenue Service has granted tonnage tax payer status is entitled to change it not earlier than 10 taxation periods after the gaining of the referred to status.

[22 November 2001]

### **Section 3. Object upon which Tax Imposed, Tax Rates and Taxation Periods**

(1) In respect of residents, the object upon which tax shall be imposed is taxable income obtained during a taxation period in Latvia and foreign countries. The tax shall be 15 per cent of such taxable income.

(1<sup>1</sup>) The tonnage tax payer with the object upon which tax is imposed make up two parts: the object specified in Paragraph one of this Section and the income upon which tonnage tax is imposed which is specified in accordance with Section 6<sup>1</sup> of this Law. Each part of the object upon which tax is imposed shall have separately applied the tax rate specified in Paragraph one of this Section.

(2) In respect of permanent representative offices, the object upon which tax shall be imposed is taxable income obtained by such office independently during a taxation period in Latvia and foreign countries. The tax shall be 15 per cent of such taxable income.

(3) If a non-resident directly carries on entrepreneurial activity in Latvia, including trade or providing of services, which is the same entrepreneurial activity as that carried on by the permanent representative office of such non-resident in Latvia, the directly obtained income of such non-resident as has been obtained in Latvia shall be included in the income of the permanent representative office located in Latvia and enterprise income tax shall be imposed thereon at the rate of 15 per cent.

(4) In respect of non-residents, the object on which tax shall be imposed is income obtained in Latvia from entrepreneurial activity or related activity. Tax shall be deducted from payments as are paid by residents and permanent representative offices to non-residents if personal income tax has not been deducted from such payments. Enterprise income tax shall be deducted from the following:

- 1) dividends – 10 per cent of the dividend amount;
- 2) remuneration for management and consultancy services – 10 per cent of the remuneration amount;
- 3) interest payments: if the payer and recipient thereof are affiliated undertakings or persons – 10 per cent of such payments; but regarding interest payments that are paid by commercial banks registered in the Republic of Latvia to undertakings or persons affiliated with them – 5 per cent of such payments;
- 4) payments for intellectual property:

a) payments regarding copyright (including neighbouring rights) or the right to exercise copyright (including neighbouring rights) to literary or artistic works, including films, video films or sound recordings – 15 per cent of such payments, and

b) payments regarding other types of intellectual property – 5 per cent of such payments;

5) remuneration for the use of property located in Latvia – 5 per cent of the remuneration amount;

6) [23 November 2000]; and

7) remuneration from the alienation of immovable property in Latvia – 2 per cent of the remuneration amount.

(5) [23 November 2000]

(6) Within the meaning of this Section, management and consultancy services are the aggregate activities carried out by a non-resident directly or through retained personnel to ensure the management of a domestic undertaking (resident) or of a permanent representative office of another non-resident or to provide necessary consultations therefor.

(7) A taxation period is an accounting year of an undertaking in accordance with the Law On Accounting, the Law On Annual Accounts of Undertakings, the Credit Institution Law or the Law On Insurance Companies and their Supervision.

(8) Irrespective of any provisions of this Law, enterprise income tax shall be deducted at the rate of 15 per cent from all payments paid by residents of Latvia or by permanent representative offices of non-residents to legal, natural or other persons as are located, have been set up or established in low-tax and tax-free countries or territories referred to in Cabinet regulations, including payments made to representatives of such persons or into bank accounts of third parties and payments made by way of mutual accounting entries, except the following payments made to persons as are located, have been set up or established in low-tax or tax-free countries or territories:

1) dividends paid by residents of Latvia;

2) interest from credit institutions registered in the Republic of Latvia on deposits and balances of current accounts, if such interest is paid according to the general rate determined by the credit institution for deposits and balances of current accounts; and

3) payments regarding supply of goods, if such goods are goods of origin of the relevant low-tax or tax-free country or territory.

(9) The State Revenue Service may allow tax not to be deducted from the payments tax is to be deducted from in accordance with Paragraph eight of this Section, if the payer thereof on a well-founded basis establishes that the payments mentioned are not being made with intent to decrease the taxable income of such payer and to not pay or to decrease taxes payable in Latvia. The State Revenue Service shall cancel a permit that has been granted if in the process of administering taxes, it has obtained well-founded information that attests to concealment of the true circumstances of the transaction. In the case of cancelling of a permit, the norms of Paragraph eight of this Section shall be applied to the payer, and the amount of tax to which the cancelled permit relates, shall be deemed to be a late tax payment.

(10) The provisions of Paragraph four of this Section are applicable to the payments mentioned in Paragraph eight of this Section from which tax is not to be deducted, at the place of payment, pursuant to the rate of 15 per cent, and to the payments from which, in accordance with the provisions of Paragraph nine of this Section, tax may be allowed not to be deducted.

[29 February 1996; 5 June 1996; 13 March 1997; 10 September 1998; 25 November 1999; 30 March 2000; 23 November 2000; 22 November 2001]

## Chapter II Determining Taxable Income

### **Section 4. Taxable Income of a Resident and of a Permanent Representative Office**

(1) Taxable income of taxpayers (hereinafter, also - payers) – residents and permanent representative offices – is the amount of profit or loss, prior to the assessment of enterprise income tax, as set out in the profit or loss account of annual accounts of payers, drawn up in accordance with Sections 11 and 12 of the Law On Annual Accounts of Undertakings or with the Credit Institutions Law or the Savings and Loan Society Law or the Law On Insurance Companies and their Supervision, which is increased or decreased accordingly by such amount of expenses or part of expenses as are not directly related to economic activity of the payer and by that amount of losses as have been caused by the maintenance of social infrastructure facilities belonging to the payer. Taxable income shall be adjusted (amended) in accordance with this Law.

(1<sup>1</sup>) Taxable income in respect of public organisations and their associations, religious organisations, as well as other taxpayers to which the Law On Annual Accounts of Undertakings, the Credit Institution Law and the Law On Insurance Companies and their Supervision are not applicable and which obtain income from economic activity and to which Section 2, Paragraphs two, three and four of this Law do not apply, is the difference between revenue from economic activity and expenses relating to the obtaining of the revenue mentioned and shall be adjusted in accordance with this Law.

(2) Taxable income of a permanent representative office shall be determined and payment of tax shall be effected in accordance with the procedures prescribed by the Cabinet.

(3) A reference to an increase or a decrease in the profit of a taxpayer shall henceforth be understood also as a reference to a decrease or an increase in the relevant loss.

(4) Adjustment of taxable income, by increasing or decreasing it pursuant to the procedures prescribed in Section 6, may only be carried out if, when profit or loss of the payer is determined, the amounts mentioned in Paragraph one of this Section have been taken into account.

(5) Individual undertakings (including farms or fishing undertakings) – enterprise income taxpayers – shall submit annual accounts in conformity with the Law On Annual Accounts of Undertakings.

(6) [23 November 2000]

(7) [23 November 2000]

(8) In determining the taxable income of payers in accordance with this Law, any income irrespective of the form in which it was acquired (in monetary or in other property, or in the form of services) shall be taken into account.

[10 September 1998; 25 November 1999; 23 November 2000; 22 November 2001]

### **Section 5. Expenses not Directly Related to Economic Activity**

(1) There shall be included in expenses that are not directly related to economic activity, all expenses incurred by an undertaking for relaxation, pleasure trips and, recreation of owners and employees, for travel with the motor vehicles of an undertaking by owners and employees and benefits, gifts, credits and loans turned into gifts of owners and employees, as are not related to entrepreneurial activity, and other disbursements in cash or other form (in kind) to owners or employees that are not set out as remuneration or that are not related to the entrepreneurial activity of the taxpayer.



(2) The amount of costs relating to the development of social infrastructure facilities belonging to a payer shall not be deducted from taxable income.

(3) Social infrastructure facilities belonging to a payer are, within the meaning of this Law, housing and municipal utility facilities, educational, cultural, sports, public catering and medical care institutions, the services of which are provided and rent is determined by prices which are lower than market prices, or free of charge, if they are not directly related to the entrepreneurial activity of a payer.

(4) Included in expenses that are not related to economic activity shall be donations or gifts to other persons, amounts of guarantees, which an undertaking as a guarantor is required to pay in accordance with an agreement of guarantee, deductions from profit, from turnover or other base quantity carried out by an undertaking on its own initiative, by order of its owner or in accordance with laws, and such expenses as are economically not related to economic activity of an undertaking.

[10 September 1998; 23 November 2000]

## **Section 6. Adjustment of Taxable Income**

(1) Taxable income of an undertaking shall be increased by:

1) the amount of the depreciated fixed assets and the value of the written off intangible investments set out in the annual accounts of the undertaking and shall be reduced by the amount of the depreciated fixed assets and the value of the written off investments in intangible assets calculated in accordance with the requirements of Section 13 of this Law, except the cases referred to in Clause 10 of this Section;

2) amounts applied to fines, contractual penalties and monetary penalties, and by the amount of penal sanctions (increase of principal debts, late charges) assessed in accordance with the Law On Taxes and Fees;

3) the unrepaid amounts of shortage or misappropriation in undertakings in the share capital of which the share of State or local governments exceeds 50 per cent, as well as in institutions financed from the budget;

4) the payments provided for in Section 3, Paragraph four, Clauses 2-7 and Section 3, Paragraph eight of this Law, if the undertaking has not deducted tax in the specified amount from such;

5) 40 per cent of the amount used for representation expenses. Within the meaning of this Section, representation expenses are expenses of an undertaking for developing and maintaining its prestige at a level acceptable to society. They include expenses for holding public conferences, receptions and meals, and expenses for producing representational items for an undertaking;

6) the amount by which during the taxation period, as compared to the previous taxation period, the special reserve for doubtful debts created and shown in the accounting of a payer (which is not a credit institution) has been increased and by the amounts of unrecoverable (bad, without any hope to recover such) debts that have been directly included in losses (costs);

7) the losses in a taxation period from sale of securities (except for losses from securities which are located in public circulation in accordance with the Law On Securities);

8) the expenditures which are related to the acquisition in the taxation period of those securities which are in public circulation in accordance with the Law On Securities;

9) the expenditures which have occurred to the tonnage tax payer in the acquisition of income from the utilisation of ships in international carriage and activities associated with this; and

10) the amount of the depreciation of fixed assets and value of written-off intangible investments referred to in the annual accounts of the undertaking if these fixed assets and intangible investments were utilised for the acquisition of income from the utilisation of ships in international carriage and activities associated with this.

(2) The provision referred to in Paragraph one, Clause 5 of this Section shall also apply to State and local government undertakings and institutions financed from the budget unless greater restrictions are prescribed in Cabinet regulations or decisions of local government city councils (district or parish councils).

(3) When determining taxable income, profits of an undertaking may not be reduced by the amounts of expenses related to developing long-term investments (except interest payments of such long-term loans that are not included in the long-term investment costs) and of loans to be repaid, by the amount of funds provided for creation of reserves (except in the cases mentioned in Sections 7, 8 and 8<sup>1</sup> of this Law), by the amount of dividends of one's undertaking, by the amount of enterprise income tax (or its corresponding tax) paid in foreign states, and by the amount of payment for exceeding natural resource utilisation limits and environmental pollution limits.

(4) In determining taxable income, the profit of an undertaking shall be decreased:

1) by the amounts of immovable property tax (land tax and property tax), lottery and gambling taxes and fees;

2) by the amounts paid in the form of subsidies as State aid to agriculture or European Union aid to agriculture and rural development;

3) by the amount of bad debts during the taxation period determined in accordance with Section 9 of this Law by which during the taxation period, as compared to the previous taxation period, the special reserve for doubtful debts created and shown in the bookkeeping of the payer (that is not a credit institution) has been decreased, except the amounts of decrease resulting from a write-off of bad debts from special reserves provided for doubtful debts;

4) by the revenue from the difference between the acquisition value of privatisation certificates invested in the privatisation of State and local government property or a part thereof and the selling price determined for the property mentioned or a part thereof, which has been privatised for certificates, if the relevant difference in the values is shown as revenues in the financial accounting of the payer;

5) if a State or local government undertaking is privatised, by the revenue from the negative goodwill of the undertaking (difference between the purchasing price of the undertaking and the value of the assets of such undertaking) that may not be extinguished by reducing the accounting value of the assets acquired;

6) by the amount by which, as compared to the previous taxation period, provisions and reserves established during the taxation period have been decreased, if the amounts of setting up (increasing) such provision and reserves during the pre-taxation periods have been included in taxable income in accordance with Paragraph three of this Section or if the reserves have been made in accordance with Section 8<sup>1</sup> of this Law;

7) by the amount of reduction in late charges (which are related to principal debts of taxes), which have been created by reducing or cancelling the late charges in accordance with the Law On Taxes and Fees;

8) by the residual value in the financial accounting of the undertaking, of computing devices and related equipment, including printing devices, transferred to educational institutions gratis, as of the time of their exclusion;

9) by income from the sale of those securities which are in public circulation in accordance with the Law On Securities; and

- 10) by tonnage tax payer income from the utilisation of ships in international carriage and activities associated with this.
- (5) When determining taxable income, results of the reassessment of balance sheet asset items shall not be taken into account, except for reassessment of assets relating to changes in foreign exchange rates. Assets and liabilities, the nominal value of which is expressed in foreign currency, shall be assessed in lati according to the foreign exchange rate determined by the Bank of Latvia for the last calendar day of the taxation year, and, in determining taxable income, the relevant income or loss shall be taken into account.
- (5<sup>1</sup>) In determining taxable income, the increase or decrease in the value of participatory shares of an undertaking in equity of a subsidiary or affiliated undertaking, set out in the profit or loss account, shall not be taken into account. Taxable income shall be increased by revenues from participation in a subsidiary or an affiliated undertaking that is a non-resident or which is applying the enterprise income tax relief provisions prescribed in the Law On Foreign Investments in the Republic of Latvia or the enterprise income tax rebates prescribed by other laws of the Republic of Latvia, if the difference between the increase in the value of the participatory shares mentioned and dividends assessed is not included in reserves.
- (6) In determining taxable income, the profit of an undertaking may not be reduced (in compliance with the provisions mentioned in Paragraph seven of this Section) by payments of insurance premiums in accordance with the Law On Insurance Contracts, which are made to insurance companies established in accordance with the Law On Insurance Companies and their Supervision, and by the payments made to private pension funds on behalf of one's employees in accordance with the Law On Private Pension Funds. These conditions also apply to payments of insurance premiums made to foreign insurance companies for such insurance services as are not provided by the insurance companies registered in Latvia.
- (7) [22 November 2001]
- (8) In determining taxable income, the profit of an undertaking shall be increased by the amount of interest payments exceeding the interest payment amount permitted for the taxation period, which shall be calculated by multiplying the average annual short-term credit rate determined by the Central Statistics Bureau in credit institutions during the last month of the taxation period by the equity capital of the undertaking at the beginning of the taxation period. The amounts exceeding the interest payment amount permitted for the taxation period may be included in the reduction of taxable income of future post-taxation periods, if the total interest payment amount of the relevant post-taxation period does not exceed the interest payment amount permitted. These provisions are not applicable to interest payments for loans and credits in credit institutions registered in the Republic of Latvia.
- (9) If during an accounting taxation period there is a change in ownership of more than 50 per cent of capital shares of an undertaking, the amounts exceeding the interest payment amount permitted in the taxation period may not be included in the reduction of taxable income of future taxation periods.
- (10) In determining taxable income in the case of privatisation of an undertaking, all of the remaining amount of interest payments is allowed to be included in expenses.
- (11) Taxable income of a particular undertaking, to which, in accordance with the provisions of Section 14<sup>1</sup> of this Law, the losses of another undertaking have been transferred, shall be increased by each compensation amount paid by the particular undertaking as reimbursement for the transferred losses, to the extent such compensation has been deducted in assessing the taxable income of such undertaking.
- (12) The taxable income of a particular undertaking, from which in accordance with the provisions of Section 14<sup>1</sup> of this Law losses have been transferred to another undertaking, shall be decreased by each compensation amount received by the particular undertaking as

reimbursement for the transferred losses, to the extent such compensation has been included in the income of such undertaking.

(13) [25 November 1999]

[29 February 1996; 5 June 1996; 13 March 1997; 13 November 1997; 10 September 1998; 4 February 1999; 25 November 1999; 30 March 2000; 23 November 2000; 22 November 2001]

### **Section 6<sup>1</sup>. Income upon which Tonnage Tax is Imposed**

(1) Income upon which tonnage tax is imposed shall be calculated by summing the calculated income upon which tonnage tax is imposed for each ship that is utilised for international carriage and activities associated with this.

(2) Income upon which tonnage tax is imposed for each ship which is utilised for international carriage and activities associated with this shall be calculated in lati by multiplying the net tonnage of the ship (tonnage which is expressed in tonnage units) with an income co-efficient (each individual tonnage share multiplied by the income co-efficient specified for the relevant share, and the acquired results added and the sum multiplied by the number of days within the taxation period in which the referred to ship was in operation).

(3) The income co-efficient (expressed in lati per tonnage unit) shall be applied in the following amounts:

1) 0.0022 – tonnage from 100 to 1000 tonnage units;

2) 0.0019 – tonnage from 1001 to 10 000 tonnage units for tonnage that exceeds 1000 tonnage units;

3) 0.0016 – tonnage from 10 001 to 25 000 tonnage units for tonnage that exceeds 10 000 tonnage units; and

4) 0,0007 – tonnage over 25 000 for tonnage that exceeds 25 000 tonnage units.

[22 November 2001]

### **Section 7. Inclusion in Income and Expenses of Special Reserves of Credit Institutions Provided for Doubtful Debts and of Payments Made into Deposit Insurance Funds, in Determining Taxable Income**

In determining taxable income for credit institutions, profit shall be reduced by the amount of deductions made within a one-year period in deposit insurance funds and – in accordance with the procedures prescribed by the Bank of Latvia – special reserves for doubtful debts, and the profit shall be increased, in turn, by the amount withdrawn within a one-year period from such reserves and included in the income of credit institutions.

[12 October 1995]

### **Section 8. Funds Provided for Special (Technical) Reserves of Insurance Companies**

In determining taxable income of insurance companies, in accordance with the Law On Insurance Companies and their Supervision, profit shall be reduced by the amount of deductions made within a one-year period in special (technical) reserves and increased, in turn, by the amount withdrawn within a one-year period from such reserves and included in the income of the insurance company.

[10 September 1998]

### **Section 8<sup>1</sup>. Tax Relief on Acquisition of Buses used for Passenger Traffic**

(1) Taxpayers, who during a taxation period have received subsidies to cover costs of passenger transport on domestic regular bus service routes may, in distributing profits of the taxation period, establish special reserves.

(2) The total amount of reserves established in a taxation period may not exceed the amount calculated by multiplying five thousand lati by the number of buses included in the balance sheet of the passenger vehicle transport undertaking at the beginning of the taxation period in which the undertaking uses tax relief for the first time.

(3) The reserve mentioned in Paragraph one of this Section may be built up over the time of three taxation periods, including the taxation period during which the relevant reserve has been established. The reserve mentioned may not be used for increasing share capital during these three taxation periods.

(4) If within the time of three taxation periods the passenger vehicle transport undertaking has not acquired buses usable for passenger transport or the value of such buses as are acquired is less than the amount of reserves established, taxable income shall be increased by the amount calculated as the difference at the end of the third taxation period between the amount of the reserves established and the actual value of acquired buses usable for passenger transport.

(5) The part of tax as may, in accordance with Paragraph four of this Section, be related to increased taxable income shall be considered a late tax payment in accordance with the Law On Taxes and Fees.

(6) Procedures for application of this Section, and procedures for how taxpayers – passenger vehicle transport undertakings – shall provide information to the State Revenue Service concerning use of tax relief, shall be determined by the Cabinet.

[4 February 1999]

## **Section 9. Bad Debts**

(1) In determining taxable income, in accordance with Section 6, Paragraph one, Clause 6 and Paragraph four, Clause 3 of this Law, it may be reduced by the amount of bad debts, if the first three and one of the other conditions mentioned in this Paragraph are complied with:

1) the income relating to such debts has previously been included in calculation of taxable income;

2) the amount of such debts has been written off from the amount of special reserves provided for doubtful debts or directly as losses (expenses) in the accounting of the undertaking during the current taxation period or any previous taxation period;

3) the debtor is a taxpayer of Latvia: a resident or a permanent representative office or a resident of a country as Latvia has concluded conventions with on the prevention of double taxation and tax evasion, if such conventions have come into force;

4) the debtor is a State or local government undertaking which has been liquidated in conformity with the decision of a relevant institution;

5) there is a court judgment declaring that the debtor is bankrupt;

6) there is a court judgment regarding debt recovery from the debtor and a statement of a bailiff concerning the impossibility of recovery, and the undertaking-debtor has been excluded from the Enterprise Register; and

7) there is a court judgment regarding the collection of a debt from the debtor – natural person – and a statement of a bailiff concerning the impossibility of recovery.

(2) The taxable income of an undertaking for a taxation year may be decreased by the amount of money that was in the current account of the undertaking at the time of bankruptcy of a bank, if the bank mentioned has been declared bankrupt by a court adjudication, except with regard to amounts in respect of which the undertaking has transferred its rights to claim for to other persons, and amounts paid to the undertaking from the investment insurance fund.

(3) The taxable income of an undertaking for a taxation year shall be increased by the amount of money or the value of property obtained from a debtor or bank in the relevant taxation year as part of the procedure of liquidation of such debtor or bank, if the taxable income of previous taxation periods was decreased by the relevant amount of money in the current account of the undertaking at the time of bankruptcy of the bank or by the bad debt.

(4) Taxable income may not be decreased by the difference between the amount of a bad debt and the amount of money obtained from transfer of one's rights to claim to other persons, if the undertaking has transferred its rights to claim in regard to a bad debt conforming with the conditions set out in this Section, to other persons.

[5 June 1996; 13 March 1997; 23 November 2000]

#### **Section 10. Losses Sustained as a Result of *Force Majeure* and Other Forced Losses**

(1) Losses of fixed assets sustained as a result of *force majeure* or other forced losses of fixed assets shall be considered to be the exchange of these fixed assets for the amount of money equivalent to compensation for the relevant fixed assets unless otherwise provided for by this Section.

(2) [5 June 1996]

(3) In determining taxable income, income from compensation for land, buildings, parts thereof and structures lost as a result of force majeure or other forced loss shall not be taken into account if, within a 12-month period from the date of receipt of the compensation, the amount of the compensation received has been reinvested in the same or similar fixed assets. Similarly, income from each part of the compensation reinvested in the same or similar fixed assets within the 12-month period shall not be taken into account, if the compensation mentioned is paid in parts.

(4) If the condition set out in Paragraph three of this Section is fulfilled, the accounting value of a fixed asset shall be equivalent to the accounting value of the fixed asset lost to which the amount, by which the value of the newly acquired fixed asset exceeds compensation for the lost fixed asset, is added.

[5 June 1996; 25 November 1999]

#### **Section 11. Taxation of Dividends**

(1) The taxable income of a domestic undertaking shall be reduced by the amount of dividend receivable shown in the profit or loss account of the annual accounts of the undertaking.

(2) The taxable income of a domestic undertaking shall be increased by:

1) the amount of dividends received from non-residents, except the dividends referred to in Paragraph three of this Section;

2) the part of the amount of dividends receivable from undertakings applying enterprise income tax relief provisions prescribed in the Law On Foreign Investments in the Republic of Latvia or enterprise income tax rebates prescribed in other laws of the Republic of Latvia, corresponding to the share of profit on which, when applying the enterprise income tax relief and rebates provided by the laws mentioned, the enterprise income tax has not been imposed.

(3) The taxable income of a domestic undertaking shall not be increased by the amount of dividend receivable from non-residents, if the dividend receivable conform at the same time to the following conditions:

1) the dividends are received from such a non-resident as who at the time of the payment of the domestic undertaking dividends owns at least 25 per cent of the capital and voting rights; and

2) the payer of the dividends is a resident of such a state or territory which, in accordance with Cabinet regulations, has not been recognised as a low-tax or no-tax state or territory.

[10 September 1998; 25 November 1999; 23 November 2000]

## **Section 12. Special Provisions regarding Affiliated Undertakings**

(1) If affiliated undertakings constitute a group of undertakings, the group of undertakings shall submit annual accounts in regard to enterprise tax payments by all the undertakings included therein, simultaneously with the accounts in regard to tax payments of the parent undertaking.

(2) When determining taxable income, profit shall be increased by amounts formed by:

1) losses from sale of fixed assets to affiliated undertakings or to persons affiliated with an undertaking;

2) the difference (part of the difference) in the value of goods (products, services) as arises, if such goods (products, services) are sold at prices that are lower than market prices to affiliated foreign undertakings and undertakings exempt from enterprise income tax or which are utilising relief provisions as provided for in the Law On Foreign Investments in the Republic of Latvia or other enterprise income tax rebates prescribed in other laws of the Republic of Latvia, or if such goods (products, services) are sold at prices that are lower than market price to persons affiliated with the undertaking;

3) the difference (part of the difference) in the values of goods (products, services) as arises, if such goods (products, services) are purchased at prices that are higher than market prices from affiliated foreign undertakings and undertakings exempt from enterprise income tax or are utilising relief provisions provided for in the Law On Foreign Investments in the Republic of Latvia or other enterprise income tax rebates prescribed in other laws of the Republic of Latvia, or if such goods (products, services) are purchased at prices that are higher than market prices from persons affiliated with the undertaking; and

4) the difference between the transaction value and market value, if the undertakings or persons mentioned in Paragraphs two and three of this Section carry out other kinds of mutual transactions.

(3) Tax according to the rate of 10 per cent shall be imposed on interest payments for loans from affiliated undertakings, which are exempt from enterprise income tax or which are utilising relief provisions provided for in the Law On Foreign Investments in the Republic of Latvia or other enterprise income tax rebates in accordance with other laws of the Republic of Latvia, or from persons affiliated with the undertaking. If payments similar to those mentioned in Section 3, Paragraph four, Clauses 2-7, are made to such affiliated undertakings or persons affiliated with the undertaking, tax shall be deducted by applying the rates prescribed in the Clauses mentioned and in accordance with the provisions of Section 3 and 24.

(4) A transaction of a resident or a permanent representative office with another undertaking or person, if they are located, have been set up or established in low-tax and tax-free countries or territories, shall be considered to be a transaction with an affiliated undertaking or a person affiliated with the undertaking. The list of the referred to countries or territories shall be prescribed by the Cabinet.

[29 February 1996; 10 September 1998; 4 February 1999]

## **Section 13. Write-off of Value of Depreciated Fixed Assets and Intangible Investments**

(1) When assessing taxable income, depreciation of fixed assets to be used in economic activity shall be determined according to the following procedure:

1) the fixed assets shall be divided into five categories and the rate of depreciation of the taxation period shall be determined as a percentage:

Category	Rate of Depreciation	Type of Fixed Assets
1	5 per cent	Buildings, structures, perennial plants
2	10 per cent	Railway rolling stock and technological equipment, sea and river fleet vessels, fleet and port technological equipment, power equipment
3	35 per cent	Computing devices and related equipment, including printing devices, information systems, software products and data storage equipment, means of communication, copiers and related equipment
4	20 per cent	Other fixed assets, except the fixed assets mentioned in the 5 <sup>th</sup> category
5	7.5 per cent	Oil exploration and extraction platforms together with the equipment necessary for their functioning located on such platforms, oil exploration and extraction ships

2) the accounting of the fixed assets for calculation of depreciation in accordance with this Section shall be conducted:

a) in respect of buildings and parts thereof, constructions, perennial plants, oil exploration and extraction platforms, oil exploration and extraction ships, and in respect of fixed assets that are not used or are only partly used in economic activity – for each fixed asset separately;

b) in respect of the fixed assets mentioned in Clause 9 of this Paragraph acquired or set up during a period while the relevant region has been granted the status of a region requiring special assistance – separately from the other fixed assets of the relevant category; and

c) in respect of other fixed assets – regarding the entire category in aggregate;

3) the amount of depreciation regarding fixed assets of the undertaking in the taxation period shall be calculated from the residual value of each category of fixed assets prior to deduction of depreciation in the taxation period, applying double the rate of depreciation prescribed for the relevant category of fixed assets;

4) the residual value of a relevant category of fixed assets, from which the taxation period depreciation is calculated, shall be determined by increasing the residual value of the category of fixed assets of the pre-taxation period by the value of fixed assets acquired or set up during the taxation period and by the capital expenditure on the relevant category of fixed assets, and by reducing it by the residual value, as set out in the financial accounting of the payer at the time of its exclusion, of the fixed assets excluded or lost in the taxation period as a result of force majeure or other forced losses;

5) if the calculations mentioned in the previous Clause result in a negative balance, the relevant amount shall be added to taxable income of the undertaking and the balance of the category shall be reduced to zero;



6) if the residual value of fixed assets of the relevant category after deduction of depreciation at the end of the taxation period does not exceed 50 lati or the relevant category does not include any fixed asset, the residual value of the category shall be written off as expenses of entrepreneurial activity in the taxation year;

7) the total amount of depreciated fixed assets of the undertaking in the taxation period, including the value mentioned in the previous Clause, shall be determined by summing up the depreciation calculated according to categories of fixed assets. If the taxation period of the undertaking is shorter or longer than 12 months, the total amount of depreciated fixed assets of the undertaking in the taxation period calculated in accordance with this Section shall be multiplied by a coefficient which, in turn, shall be calculated by dividing the number of months of the taxation period by twelve. In determining the residual value of the fixed assets for purposes of calculation of tax, the total adjusted amount of depreciation of the taxation period shall be applied;

8) Section 13, Paragraph one of this Law does not apply to land, works of art and antiques, jewellery and other fixed assets that are not subject to physical or economic depreciation; and

9) if the undertaking is registered and operating in accordance with the Law On Regions Requiring Special Assistance in a region requiring special assistance and a decision concerning the compliance of its development plan with the development programme of the relevant region has been taken in accordance with the procedures prescribed by the Cabinet, the acquisition value or the set up value of the fixed assets, acquired by such undertaking while the relevant region has the status of a region requiring special assistance and used by the undertaking in its entrepreneurial activity in such region, shall, prior to calculation of the total amount of depreciation of the relevant category of fixed assets in the taxation period, be increased by multiplying such by the following coefficients:

- a) for fixed assets of the first category – 1.5,
- b) for fixed assets of the second category – 1.3,
- c) for fixed assets of the third category – 1.8,
- d) for fixed assets of the fourth category – 2.

(2) Capital expenditures are expenses for the improvement, renewal and reconstruction of fixed assets, which significantly increase their production potential or extend their time of operation.

(3) If an undertaking carries out revaluation of fixed assets, the results thereof, except the results of revaluation made in connection with privatisation of the undertaking and in conformity with Cabinet regulations, shall not be taken into account when determining the residual value of fixed assets.

(4) Intangible investment set up costs regarding concessions, patents, licences and trademarks shall systematically be written off, according to the linear (equable) method. Depreciation of other intangible investments shall not be written off for tax calculation purposes.

(5) The value of intangible investments shall be written off as follows: for concessions – over 10 years; for patents, licences and trademarks – over five years. Costs of research and development (also, those pertaining to technical documentation of unrealised projects, if the value of such projects is not included in fixed assets) as relate to economic activity of a taxpayer, except costs of determining the location, quantity and quality of minerals, shall be written off in the year when such costs are incurred.

(6) Costs of determining the location, quantity and quality of minerals shall be written off systematically over ten years after the costs are incurred.

(7) If fixed assets are leased with pre-emptive rights, the costs of their depreciation and reconstruction, improvement and renewal shall be written off as if the fixed assets were the property of the lessee.

(8) If fixed assets are leased without pre-emptive rights and they are to be returned to the owner after the lease term has expired, or if an agreement of lease provides for reconstruction, improvement or renewal of fixed assets, a lessee shall write off the amount of such costs in equal parts over the remaining period of the lease. If the lessor, in accordance with the agreement, compensates the lessee for such expenses of reconstruction, improvement or renewal, the amount of such expenses shall be included in taxable income of the lessee.

(9) If a lessee performs work in regard to reconstruction, improvement or renewal of leased fixed assets not provided for by an agreement of lease, or if an agreement of lease has not been concluded, taxable income of the lessee shall be increased by the amount of the cost of such work of reconstruction, improvement or renewal.

[5 June 1996; 13 March 1997; 25 November 1999; 23 November 2000]

#### **Section 14. Covering Losses of Previous Years**

(1) If the result of adjustment of profit or losses of a taxation period of an undertaking, made in accordance with this Law, is losses, they may be covered in chronological sequence from taxable income of the next five taxation periods.

(1<sup>1</sup>) An individual (family) undertaking (including farms or fishing undertakings) whose owner has paid personal income tax on its income in the pre-taxation period is entitled to cover losses resulting from economic activity in the previous taxation period, calculated in accordance with the Law On Personal Income Tax, in chronological sequence, from the taxable income of the undertaking assessed in accordance with the procedures set out in this Law, during the period of transfer of losses prescribed by the Law On Personal Income Tax, i.e. from the taxable income of three consecutive taxation periods, beginning with that taxation period when in accordance with the Law On Personal Income Tax, the right to cover losses arises for the payer.

(2) If during a taxation period control of an undertaking is acquired by a person or a group of persons that previously did not control such undertaking, losses of pre-taxation periods of such undertaking shall not be covered in the taxation period or in subsequent taxation periods, if it is not specified otherwise in this Section.

(3) The provisions of Paragraph two of this Section are not applicable in cases where the undertaking in which a change of control has taken place maintains its previous type of ordinary activity, as conform to the ordinary activity of the undertaking for two taxation periods before the change in control, for five taxation periods after the change in control.

(4) When applying the provisions of Paragraph two of this Section in cases where the control of the undertaking has been acquired as a result of privatisation, it shall be considered that the control has not been acquired during the time period up to such taxation period as during which the undertaking has not complied with any of the provisions on the basis of which its privatisation has been carried out.

(5) Within the meaning of this Section it shall be considered that a person controls another person, if the first mentioned person directly or by way of participation in one company or in several companies owns more than 50 per cent of all the shares or capital shares issued by the other person and they have more than 50 per cent of all the votes of shareholders (owners of shares), as may be counted in any voting.

(6) An undertaking registered and operating in accordance with the Law On Regions Requiring Special Assistance in a specific region requiring special assistance and concerning the compliance of whose development project with the development programme of the relevant region a decision has been taken in accordance with the procedures set out by the Cabinet, may cover the losses mentioned in Paragraph one of this Section in chronological sequence from taxable income of the next 10 taxation periods. Losses of taxation periods

referred to in Paragraph 1<sup>1</sup> of this Section may be covered in chronological order from taxable income of the six subsequent taxation periods.

(7) The provisions of Paragraph six of this Section are applicable only to losses of such taxation periods as during which the relevant region has the status of a region requiring special assistance.

(8) Losses of a taxation period from sale of securities (except securities which are in public circulation in accordance with the Law On Securities) may be covered in chronological sequence from taxable income of the five subsequent taxation periods from other sale of securities, but not exceeding the amount of the losses mentioned.

(9) If, when adjusting taxable income in accordance with Section 6, Paragraph four, Clause 2 of this Law, the result of adjustment is losses or an increase in losses, the losses or the increase in losses resulting from such adjustment may not be covered from taxable income of subsequent taxation periods in accordance with the provisions of Paragraph one of this Section.

(10) If an undertaking carries out oil exploration and extraction activities and the amount of the oil exploration and extraction activities in its total turnover (volume of activities) exceeds 80 per cent, the losses of the taxation period mentioned in Paragraph one of this Section may be covered in chronological sequence from taxable income of the 10 subsequent taxation periods.

(11) If an undertaking is reorganised by merging with another undertaking, and the first and second undertaking prior to reorganisation, but the second undertaking after reorganisation is controlled by one and the same person or group of persons, the second undertaking after reorganisation is entitled to assume the pre-taxation period losses of the first undertaking and to cover them in the taxation period and in following taxation periods according to the procedures specified in Paragraph one of this Section.

(12) If in the course of reorganisation an undertaking is divided or divested and the undertaking to be divided at the time of reorganisation has losses which it is entitled to cover in accordance with this Section, the right to cover the losses of this undertaking to be divided in the case of division, observing Paragraphs thirteen and fourteen of this Section, shall be assumed by the newly-founded undertakings, but in the case of divestment – the undertaking to be divided after reorganisation and the newly-founded divested undertaking.

(13) The division of the losses of the undertaking to be divided between the undertaking to be divided and the newly-founded divested undertaking in the case of divestment and between the newly-founded undertakings in the case of division after reorganisation, shall be proportional in relation to – the value of the assets part of the divested (dividing) undertaking after reorganisation against the value of the assets of the undertaking to be divided prior to reorganisation.

(14) Following the reorganisation of an undertaking which has occurred by carrying out division and divestment, the newly-established undertakings and the undertaking to be divided (in the case of divestment) are entitled to cover the pre-taxation period losses in the case, where they are controlled by a person whose participation directly or indirectly (utilising for participation another person or several other persons, or in some other way) in the capital of the undertaking to be divided exceeds 20 per cent, and who owns more than 20 per cent of all the stockholder (shareholder) votes which can be counted in each ballot.

(15) In covering losses, in undertakings in which reorganisation has been carried by way of undertaking merger, division or divestment, Paragraphs three, six and ten of this Section are not applicable.

[13 March 1997; 10 September 1998; 25 November 1999; 23 November 2000; 22 November 2001]

## **Section 14<sup>1</sup>. Transfer of Losses to a Group of Undertakings**

(1) A group of undertakings consists of a principal undertaking and all subordinate undertakings of the principal undertaking.

(2) A principal undertaking – a participant in a group of undertakings – is a legal or a natural person that is a resident of the Republic of Latvia or of such state as the Republic of Latvia has entered into a convention or an agreement on double taxation and prevention of tax evasion with.

(3) A subordinate undertaking of a principal undertaking – a participant in a group of undertakings – is a domestic undertaking of which at least 90 per cent is owned by:

1) the principal undertaking;

2) one subordinate undertaking of the principal undertaking or several such subordinate undertakings; or

3) the principal undertaking and one of its subordinate undertakings or by several such subordinate undertakings together in any combination.

(4) In the application of Paragraph three of this Section, it shall be considered that 90 per cent of an undertaking is owned by one participant of a group of undertakings or several such participants, if the provisions of Clause 1 or 2 of this Paragraph have been complied with:

1) in cases where all the shares or capital shares of the undertaking give their owners equal rights and advantages, if one participant of the group of undertakings or several such participants own at least 90 per cent of the shares or capital shares of such undertaking; and

2) in cases where all shares or capital shares of the undertaking do not give their owners equal rights and advantages, if both of the following provisions are simultaneously complied with:

a) one participant in the group of undertakings or several such participants own at least 90 per cent of the market value of all the shares or capital shares issued by such undertaking; and

b) one participant in the group of undertakings or several such participants own at least 90 per cent of all the votes of shareholders (owners of shares) of such undertaking, which may be counted in any voting.

(5) Irrespective of the provisions of Paragraph four of this Section a specific undertaking shall not be considered to be a subordinate undertaking, if:

1) a person, who is not a participant of such group of undertakings, has an opportunity to influence the rights of the principal undertaking or the subordinate undertaking regarding shares or capital shares of such specific undertaking, or if such person has the right to acquire any shares or capital shares of the specific undertaking, and

2) if one of the main objectives of such agreement has been to ensure that the specific undertaking remains a participant in the group of undertakings.

(6) If an undertaking is a participant in a group of undertakings and the result of adjustment of profits or losses of a taxation period of such undertaking, made in accordance with this Law, is losses, in conformity with the provisions of this Section taxable income of the same taxation period of one participant in such group of undertakings or of several such participants calculated according to this Law may be reduced by an amount which, taken altogether, does not exceed the amount of losses of the first mentioned undertaking.

(7) Losses of a taxation period of an undertaking may be transferred to another undertaking that is a participant in the same group of undertakings only if all of the following provisions are complied with:

1) both undertakings are incorporated companies that are residents of the Republic of Latvia and are not simultaneously residents of another state;

- 2) both undertakings are participants in the group of undertakings during all the taxation period when the losses, which are being transferred, have been incurred;
  - 3) taxation periods of both undertakings end on one and the same date;
  - 4) neither of the undertakings in accordance with any law of the Republic of Latvia is exempt from enterprise income tax or is having applied to it a reduced rate of such tax (except relief as set out in Chapter III of this Law);
  - 5) neither of the undertakings is a tax debtor in respect of any taxes payable in the Republic of Latvia, except in cases where terms for payment of taxes are extended in accordance with the Law On Taxes and Fees; and
  - 6) both undertakings, together with an income tax declaration of such undertakings, submit annual accounts attested to by a certified auditor.
- (8) Losses of a taxation period of an undertaking that have been transferred to another undertaking may not be covered by the first mentioned undertaking from the taxable income of such or of another taxation period.
- (9) The amount of losses of a taxation period of an undertaking that is being transferred to another undertaking may not exceed the amount of taxable income of the same taxation period of such other undertaking.
- (10) If the amount of losses transferred by an undertaking to another undertaking exceeds the amount the undertaking was allowed to transfer in accordance with this Law, both undertakings shall be jointly and severally liable for the payment of any such tax not paid, and for the payment of any fines associated with such as have not been paid, regarding the reduction of taxable income by the amount exceeding the amount of losses transferable.
- (11) If taxable income of an undertaking is reduced by the amount of losses transferred to it from another undertaking, both undertakings, together with income tax declarations of such undertakings shall submit an annex in conformity with the form approved by the State Revenue Service in which both undertakings attest that in the relevant taxation period they are participants in one and the same group of undertakings, as well as state the grounds why they are to be considered participants in one and the same group of undertakings.
- [13 March 1997]

### **Chapter III Tax Rebates**

#### **Section 15. Application of Rebates**

- (1) Any tax rebates provided by this Law shall be applied to taxes assessed in accordance with the requirements of Chapters I and II of this Law.
- (2) If an undertaking – a taxpayer – utilises enterprise income tax rebates in accordance with the Law On Foreign Investments in the Republic of Latvia or other laws of the Republic of Latvia, the tax rebates set out in this Chapter shall not be applied, except the rebate regarding taxes paid in foreign countries in accordance with Section 16 of this Law and the rebate for donors in accordance with Section 20 of this Law.

Tax rebates in accordance with the Law On Foreign Investments in the Republic of Latvia shall be applied to the tax amount after the application of the rebates specified in Sections 16 and 20 of this Law.

- (3) The enterprise income tax rebates in this Chapter, as well as those provided for in other laws shall not be applied to tonnage taxpayers.

[25 November 1999; 23 November 2000; 22 November 2001]

#### **Section 16. Tax Rebate regarding Tax Paid in Foreign Countries**

(1) In accordance with the provisions of this Law an assessed tax may be reduced by an amount equivalent to the tax paid in foreign countries, if the payment of such tax in foreign countries has been certified by documents setting out the taxable income and amount of tax paid in foreign countries, confirmed by a foreign tax collection institution.

(2) The reduction mentioned in Paragraph one of this Section may not exceed such amount as would be equivalent to the tax assessed in Latvia on income obtained in foreign countries.

(3) If, during a taxation period, a resident or a permanent representative office obtains income in several foreign countries, the provisions of Paragraphs one and two of this Section shall be applied on an individual basis to the income obtained in each foreign country.

#### **Section 17. Tax Rebate for Small Undertakings**

(1) Within the meaning of this Law, a small undertaking is an undertaking in which, during the taxation year regarding which a tax is assessed, at least two of the following conditions are not exceeded:

1) balance sheet value of fixed assets – 70 000 lati;

2) net turnover – 200 000 lati; or

3) average number of employees – 25 people.

(2) The tax rebate for small undertakings shall be 20 per cent of the enterprise income tax assessed.

(3) The tax rebate for two or more small undertakings, where more than 50 per cent of the value of share capital or of shares of the undertakings in each of such two or more undertakings are owned by, or through a contract or otherwise a decisive influence over such two or more undertakings is ensured (there is a majority vote) for, one and the same person or the first degree relatives or spouse of such person, shall apply only in cases where the aggregate indices of such undertakings do not exceed two of the conditions mentioned in Paragraph one of this Section.

(4) If a small undertaking terminates entrepreneurial activity, the tax rebate is not applicable regarding the year of liquidation.

(5) In determining balance sheet value of fixed assets for the purposes of this Section, the conditions of Paragraph three of Section 13 shall be taken into account.

[5 June 1996]

#### **Section 17<sup>1</sup>. Tax Rebate for Investments Made Within the Scope of Supported Investment Projects**

(1) An undertaking has the right, in respect of investments made within the scope of supported investment projects, to apply an enterprise income tax rebate in the amount of 40 per cent of the total invested amount. The rebate shall be applied in the taxation period in which the supported investment project is completed.

(2) If the enterprise income tax of the undertaking calculated for the taxation period is less than the calculated tax rebate, the undertaking may reduce the enterprise income tax calculated for the following taxation periods by the amount of unutilised rebate, until the rebate has been fully utilised, however not longer than the next ten taxation periods in chronological sequence.

(3) Undertakings which apply the rebate specified in Paragraph one of this Section or reduce the taxable amount according to the procedures specified in Paragraph two of this Section are not entitled to utilise the tax rebates specified in Sections 17, 18, 19, and 21 of this Law, as well as enterprise income tax relief specified in other laws.

(4) The rebate specified in this Section shall be applied to undertakings that conform to all the conditions referred to in this Paragraph:

1) the undertaking has, within the scope of the supported investment project, made investments the total amount of which exceeds 10 million lati;

2) the total amount of the investment is invested in a period which does not exceed three years; and

3) an investment project has been prepared according to procedures specified by the Cabinet and, taking into account the investment amount provided for in the supported investment project and the time periods for making the investment, the impact of the supported investment project upon the economy of the State has been evaluated, as well as whether the project referred to will not create restrictions on competition, and the basis of this evaluation is a decision adopted by the Cabinet regarding support for the investment project.

(5) Investments within the meaning of this Section are the value of the long-term investments, made within the scope of the supported investment project, in the combined fixed assets of an undertaking (buildings, structures, new technological equipment and machinery) if the fixed assets referred to are utilised for the performance of the economic activities of the undertaking.

(6) This Section shall not be applied to those sector undertakings the provision whose services are regulated in accordance with the Law On Public Services Regulators, as well as undertakings which in the taxation period apply or in previous taxation periods have applied the tax relief specified in the Law On Foreign Investment in the Republic of Latvia.

(7) If the undertaking has made investments in fixed assets within the scope of the supported investment project utilising credit or acquiring fixed assets on lease with an option to purchase, the enterprise income tax rebate, for the corresponding investment amount payments made regarding fixed assets (except for interest payments or payments equivalent to them) referred to in Paragraph five of this Law which were made in the taxation period in which the tax rebate is applicable, shall be applied, as well as in the pre-taxation period and in the taxation period before the pre-taxation period.

(8) Buildings and structures in which investments are made shall remain in the ownership of the undertaking and shall be utilised in its economic activities for not less than ten taxation periods, but technological equipment and machinery – five taxation periods, beginning with the taxation period in which the supported investment project was completed. If the fixed assets referred to are alienated before the end of the time period referred to, the undertaking, commencing with the taxation period in which the fixed assets were alienated, shall lose the right to the tax rebate referred to in Paragraph one of this Section, as well as in accordance with Paragraph two of this Section the right to reduce the calculated tax in the taxation period regarding the unutilised tax rebate of previous taxation periods.

(9) The commencement date of the supported investment project shall be deemed to be the date of the coming into effect of the Cabinet decision if the Cabinet decision does not specify otherwise.

[23 November 2000]

#### **Section 18. Tax Rebate for Undertakings Carrying out Agricultural Activities**

(1) The tax rebate for undertakings carrying out agricultural activities shall be determined in a taxation year in the amount of 10 lati for each hectare of usable agricultural land.

(2) To receive the tax rebate prescribed by this Section, an undertaking shall, simultaneously with a tax declaration, submit a land utilisation plan approved by the local government, to the State Revenue Service.

(3) The tax rebate provided for by this Section does not apply to undertakings that utilise the tax rebate provided for by Section 17 of this Law or submit false information concerning land utilisation to the State Revenue Service.

(4) Within the meaning of this Section agricultural activities are cultivation of plants, stock farming, inland water fish raising and horticulture.

#### **Section 18<sup>1</sup>. Tax Rebate for Undertakings Producing High Technology Products and Software Products**

The tax rebate for undertakings producing high technology products and software products shall be 30 per cent of the enterprise income tax assessed, if the undertaking complies with the following criteria:

1) products to be supported, as determined by the Cabinet, make up more than 75 per cent of the net turnover of the undertaking in the relevant taxation period; and

2) the undertaking has been certified according to ISO 9001 or according to ISO 14001 standards, or also a drug manufacturing undertaking that has been certified in conformity with the requirements of Good Manufacturing Practice in accordance with regulatory enactments. The Cabinet shall determine the procedures for the issuance of Good Manufacturing Practice certificates for drug manufacturing undertakings.

[25 November 1999; 8 February 2001]

#### **Section 19. Tax Rebate for Undertakings Employing Convicted Persons**

(1) The tax rebate for undertakings employing convicted persons shall be 20 per cent of the enterprise income tax assessed.

(2) In order to obtain such tax rebate, an undertaking:

1) shall be established and registered in the Enterprise Register with the aim of engaging in production of goods and employing convicted persons only in closed regimen zones of places of imprisonment in Latvia, and shall engage only in such; and

2) shall obtain, prior to establishment, a permit of the Ministry of the Interior for the establishing of such undertaking, and attain the accordance of the Ministry of the Interior with respect to all persons being founders, participants, owners or members of executive bodies. The mentioned accordance shall also be attained where the undertaking is alienated or members of executive bodies subsequently elected.

(3) The tax rebate provided for by this Section is not applicable to undertakings that utilise the tax rebate provided for by Section 17 of this Law.

[5 June 1996]

#### **Section 20. Tax Rebate for Donors**

(1) Tax shall be reduced for residents and permanent representative offices by 85 per cent of amounts donated to budget institutions, as well as public cultural, educational, scientific, sports, charitable, health and environmental protection organisations and funds registered in the Republic of Latvia, and religious organisations which have been granted permits to receive donations, the donors receiving a tax rebate. The Cabinet shall determine the procedures for the issuance and cancellation of the permits referred to, the term of validity and the documents to be submitted, as well as approve the form of the report on donors, the amount of donations and the utilisation of donations which shall be submitted.



(2) Tax shall be reduced for residents and permanent representative offices by 90 per cent of amounts donated to the Latvian Culture Foundation, the Latvian Olympic Committee and the Latvian Children's Fund.

(3) The total tax rebate in accordance with the provisions of this Section may not exceed 20 per cent of the total amount of tax.

(4) The organisations, funds and budget institutions referred to in Paragraphs one and two of this Section shall by no later than 1 March of the post-taxation period submit a public report on donors, the amounts donated by them and the use of sums regarding donations received in the taxation year.

(5) The tax rebate is not applicable to payers indebted for taxes for previous years as of the first date of the second month of a taxation period.

(6) If an undertaking has violated the provisions of this Section or has concealed taxable income, the amount of tax shall be increased by two times the amount of such tax rebate.

[13 March 1997; 11 March 1998; 10 September 1998; 25 November 1999; 23 November 2000; 22 November 2001]

## **Section 21. Special Tax Rebates**

Undertakings comprising societies for the disabled or as are medical in nature, as well as other charitable fund undertakings shall, pursuant to a list submitted by the Cabinet and approved by the Saeima, be exempt from payment of tax if they transfer to the mentioned funds (programmes, organisations) amounts exceeding the amounts of such tax assessed.

## **Chapter IV Tax Estimate and Payment Procedures**

### **Section 22. Drawing up a Tax Declaration and Tax Payment**

(1) Taxpayers shall independently draw up a tax declaration for a taxation year, the form of which, in accordance with this Law, shall be approved by the Cabinet. The taxpayer shall submit such to the State Revenue Service. The tax declaration for the taxation year shall be submitted simultaneously with annual accounts of the undertaking within the time periods set out in the Law On Annual Accounts of Undertakings, the Credit Institution Law and the Law On Insurance Companies and their Supervision.

(2) A taxpayer shall independently transfer to the State budget taxes assessed in accordance with a tax declaration, reduced in conformity with the tax rebates set out in Chapter III of this Law and by advance payments made during the taxation year, within 15 days following the day annual accounts and the tax declaration are submitted.

(3) [5 June 1996]

(4) Offices of the State Revenue Service shall apply overpayments of tax relating to a taxation period to subsequent tax payments in discharge of tax debts of the undertaking or repay such to the undertaking pursuant to its request, within 10 days.

(5) [5 June 1996]

(6) A tonnage taxpayer shall independently compile the enterprise income tax declaration referred to in Paragraph one of this Section and a tonnage tax declaration the form of which shall be approved by the Cabinet. The taxpayer shall, within the time period specified in Paragraph one of this Section submit both of the referred to declarations to the State Revenue Service and within the time period referred to in Paragraph two of this Section pay into the State budget the enterprise income tax including tonnage tax.

(7) The difference between the tonnage tax calculated for the taxation period and the tonnage tax amount paid in as advance payments on the basis of estimates, which exceeds 20 per cent of the calculated tonnage tax amount shall increase respectively the refinancing rate specified by the Bank of Latvia and the late fees which are calculated in accordance with the Law On Taxes and Fees. The part, which exceeds the difference between the calculated tonnage tax and the advance payment made, shall be divided respectively between the time periods for performance of the advance payments.

[5 June 1996; 10 September 1998; 22 November 2001]

### **Section 23. Advance Payments of Tax**

(1) During a taxation year undertakings shall, by (including) the 15th date of each month, make the following advance payments of tax into the State budget:

1) for each month from the first month of the taxation period until (including) the month when annual accounts of the undertaking are submitted – however, no later than by the month when annual accounts of the undertaking are to be submitted in accordance with the Law On Annual Accounts of Undertakings: an amount corresponding to one-twelfth of the calculated tax which, without applying the rebates set out in Sections 17, 18<sup>1</sup>, 19 and 20 of this Law, is calculated for the taxation period before the pre-taxation period and is adjusted by the general consumer price index of the pre-taxation year determined by the Central Statistics Bureau or the general consumer price index in the pre-taxation period that has been calculated by multiplying monthly consumer price indices of the pre-taxation period determined by the Central Statistics Bureau, if the taxation period does not coincide with the calendar year; or

2) for each month in the remainder of the taxation period: an amount, which has been determined by dividing the difference between the tax amount of the pre-taxation period (which has been adjusted by the general consumer price index of the pre-taxation year determined by the Central Statistics Bureau or the general consumer price index in the pre-taxation period that has been calculated by multiplying monthly consumer price indices of the pre-taxation period determined by the Central Statistics Bureau, if the taxation period does not coincide with the calendar year) and the tax amount paid in accordance with Clause one of this Paragraph by the remaining number of months from the month annual accounts are submitted until the end of the taxation period. In determining the tax amount of the pre-taxation period, the rebates set out in Sections 17, 18<sup>1</sup>, 19 and 20 shall not be taken into account.

(1<sup>1</sup>) The State Revenue Service, pursuant to an application submitted by the taxpayer and wherein grounds are set out, may, beginning with the month when the State Revenue Service has received the application of the payer, determine another amount for advance payments of tax in the following cases:

1) if the net turnover of the payer has substantially decreased in comparison with the relevant time period of the pre-taxation period, as well as when its further decrease is foreseen – advance payments of tax for the remaining months of the taxation period shall be determined by multiplying the net turnover of the previous month by the product obtained by dividing the calculated tax (which has been calculated without applying the tax rebates provided for by Sections 17, 18<sup>1</sup>, 19 and 20 of this Law) by the net turnover of the pre-taxation period; or

2) if the type of activity or the structure of revenue and expenses (revenue or expenses) of the payer have substantially changed – advance payments of tax on the remaining months of the taxation period shall be determined in equal amounts, taking into account the calculation as submitted and grounds provided by the payer. If the amount of tax payments calculated by the payer for the taxation period is less than the tax calculated, taking into

account the final accounts of the taxation period, the difference between the advance payments calculated pursuant to the method prescribed in Paragraph one, Clauses 1 and 2 of this Section and the advance payment calculated pursuant to the methods mentioned in this Clause shall in regard to each month be considered to be a late tax payment in accordance with the Law On Taxes and Fees.

(2) Undertakings that have operated only for an incomplete pre-taxation period shall adjust the tax amount calculated in accordance with the first sentence of Paragraph one, Clause 2 of this Section by dividing it by the number of months of operation and multiplying by 12. Undertakings that have operated for an incomplete period before the pre-taxation period shall carry out such adjustment in respect of the tax amount calculated in accordance with Paragraph one, Clause 1 of this Section.

(3) The advance payments set out in Paragraph one of this Section shall be determined, in regard to tax payers to which in the pre-taxation period or in the taxation period before the pre-taxation period tax rebates have been applied in accordance with the Law On Foreign Investments in the Republic of Latvia, by taking into account the conditions for relief provided for the taxation period by the aforementioned law.

(3<sup>1</sup>) In determining enterprise income tax payments, tax rebates provided for the taxation period in accordance with the Law On the Special Economic Area of Liepāja or the Law On the Special Economic Area of Rēzekne shall be taken into account. If the payer, during the taxation period, loses the right to tax rebates in accordance with the mentioned laws, the amount of reductions in advance payments that has been calculated as the difference between the amount of advance payments pursuant to the provisions of Paragraph one or Paragraph 1<sup>1</sup> of this Section and the amount of advance payments that has been determined by taking into account the tax rebates pursuant to the mentioned laws shall be considered to be a late tax payment pursuant to the Law On Taxes and Fees.

(4) Taxpayers to whom the tax rebates set out in Section 17 and 19 of this Law may be applied shall make monthly advance payments in the amount of 75 per cent of the advance payments of tax determined pursuant to Paragraphs one and two of this Section (such amount does not include taxes deducted pursuant to Section 3, Paragraph four and Section 12, Paragraph three of this Law).

(5) Taxpayers whose monthly advance payments in accordance with Paragraph one of this Section have not exceeded 500 lati in the pre-taxation periods may make advance payments once every quarter – by the 15<sup>th</sup> date of the successive month of the current quarter.

(6) Undertakings that carry out agricultural activities and derive 90 per cent of the income of the period from sales of farming production and agricultural services, shall make advance payments of tax voluntarily.

(7) Late charges for failure to, in good time, transfer the payments mentioned in Section 22 and 23 of this Law to the State budget institutions, shall be calculated in accordance with the Law On Taxes and Fees.

(8) If the first taxation period of a newly-formed undertaking is of 12 months duration or less, advance payments of tax of such undertaking regarding the first taxation period, and during the time period until submission of annual accounts regarding the first taxation period, may be made voluntarily. If the first taxation period of a newly formed undertaking is of more than 12 months duration, such undertaking may make advance payments of tax regarding the first 12 months voluntarily. Such undertaking shall make advance payments regarding subsequent months of the taxation period, and the time period until submission of annual accounts regarding the first taxation period, in the amount of 0.50 per cent of the net turnover (credit institutions and insurance companies – of the income from ordinary activities) and other revenue in the preceding calendar month.

(9) In regard to undertakings that are expressly seasonal regarding operations, the State Revenue Service shall determine, if there is an application and grounds provided therefore by the payer, other procedures for advance payments of taxes in accordance with the division of income of such undertaking by advance payment periods.

(10) Advance payments of enterprise tax shall be determined without taking into account any losses that have been or may be transferred to it from another undertaking in accordance with the provisions of Section 14<sup>1</sup> of this Law.

(11) A tonnage taxpayer shall, by the 15<sup>th</sup> date of every month, make tonnage tax advance payments to the amount of one twelfth of the amount of tonnage tax provided for in the taxation period in conformity with the tonnage tax estimates of the taxpayer.

[5 June 1996; 13 March 1997; 25 November 1999; 22 November 2001]

#### **Section 24. Tax Deduction**

(1) A taxpayer paying the amounts mentioned in Section 3, Paragraph four or eight and Section 12, Paragraph three of this Law, shall deduct tax at the time of payment and pay such into the State budget no later than by the 15<sup>th</sup> date of the next month. The tax to be deducted shall be calculated by multiplying the tax rate by the amount to be paid.

(2) A payer of an amount shall carry out accounting of payments and taxes deducted and submit accounts to the State Revenue Service and payees.

[29 February 1996; 25 November 1999]

#### **Section 25. Commencement and Termination of Tax Payments**

(1) If during a taxation year a taxpayer – irrespective of whether the payer is a resident or not – must commence payment of tax for the first time in accordance with the requirements of this Law, such is applicable only to the period from the time the relevant payer is to commence payment of tax until the end of the year.

(2) If during a taxation year a taxpayer – irrespective of whether the payer is a resident or not – terminates payment of tax in accordance with the requirements of this Law, such is applicable only to the period from the beginning of the year until the time the relevant payer terminates payment of such tax, and the liability of the payer remains in effect in respect of all the provisions of this Law in regard to such period.

#### **Section 26. Liability**

(1) Liability as provided for by the Law On Taxes and Fees is applicable to violations of this Law and to violations in regard to the conducting of accounting as prescribed in the Laws On Accounting and On Annual Accounts of Undertakings, in the Credit Institution Law and in the Law On Insurance Companies and their Supervision, if such result in reductions of taxable income.

(2) If a payer of an amount has not deducted and paid tax into the budget within the time period prescribed by Section 24, Paragraph one of this Law, the payer is liable therefor in accordance with the Law On Taxes and Fees.

[25 November 1999]

#### **Section 27. Procedures for Application of Specific Norms of this Law**

Procedures for application of specific norms of this Law shall be governed by Cabinet regulations, wherein shall be included interpretations and explanatory examples regarding the norms of this Law.

[25 November 1999]

### **Transitional Provisions**

1. This Law is applicable to calculation of enterprise income tax commencing as of 1 January 1995.
2. Tax that is to be deducted in accordance with Section 3, Paragraph four and Section 12, Paragraph three of this Law from payments to non-residents and affiliated undertakings, shall be deducted, from payments made, commencing as of 1 April 1995. In determining taxable income of the taxation year in respect of payments to non-residents and affiliated undertakings made within the period from 1 January to 31 March 1995, the provisions of Section 6, Paragraph one, Clause 4 shall not be taken into account.
3. Tax shall not be imposed on dividends paid to non-residents and affiliated undertakings in regard to income obtained in the period up to 31 December 1994.
4. Depreciation of fixed assets acquired or set up by 31 December of 1994 shall be calculated, for the purpose of determining taxable income, according to their remaining balance sheet value as of 1 January 1995, taking into account the requirements of Section 13, Paragraph three of this Law.
5. Intangible investments that have been set up by 31 December 1994 shall be written off within a five-year period from the date when they were set up, except investments as, in accordance with the provisions of Section 13, Paragraph four of this Law, are not to be written off. Taxable income of 1995 and subsequent years shall be increased by the value of such investments as has not been written off – in each year by the amount corresponding to the value of such investments to be written off.
6. In 1995 - 1996, taxable income may be reduced by losses caused to an undertaking up to 31 December 1994 and calculated in accordance with Section 22 of the Law On Profit Tax, if such losses have been recorded in a calculation (account) of profits tax for 1994. Losses for 1993 may be covered not later than in 1995.
7. Profit tax debts or, if there are no such debts, enterprise income tax shall be reduced by the amount of the losses that have resulted from the fulfilment of State procurement and introduction of the Latvian rouble in 1992, as have been proven by documentary evidence and have not been compensated from the State budget of 1994 or prior years. These losses shall be calculated in accordance with the procedures prescribed by the Cabinet. The provisions of this Clause do not apply to amounts calculated as an increase in principal debt and late charges as may be reduced only in accordance with the procedures prescribed in the Law On Taxes and Fees.
8. Payers shall, in regard 1995 and January to April of 1996, make advance payments in the amount of 0.75 per cent of the net turnover (credit institutions and insurance companies – of the income from ordinary activity) and other revenue in the preceding calendar month unless otherwise provided by these Transitional Provisions.

Undertakings (companies) which have paid lottery and gambling taxes and fees in 1995 shall not make advance payments from January to July (inclusive).

9. Undertakings, which have submitted accounts regarding payments of profit tax within the first nine months of 1994 and have shown losses in such accounts, shall not make advance payments regarding January – April of 1995.

If losses are set out in the accounts of an undertaking for 1994, advance payments for 1995 are not required to be made, except in the cases mentioned in Clause 10 of these Transitional Provisions.

10. State and local government undertakings and companies in which the share of the State (local government) in participatory capital exceeds 50 per cent and other payers whose balance sheet assets total, as of 31 December 1994, comprises 1 million lati or more or the net turnover in 1994 comprises 2.5 million lati or more, shall submit accounts and a tax declaration regarding the first half of 1995 no later than by 31 July 1995 and shall make advance payments from August to December of 1995 for the remaining months, as well as from January to April of 1996 in the following way:

1) if the undertaking has obtained taxable income in the first half of 1995, the advance payments for each remaining month and for January to April of 1996 shall be equivalent to one fifth of two times the declared tax amount for the first half of 1995, from which the actual advance payments made within the seven months of 1995 shall be deducted, including advance payments of profit tax for 1995;

2) if the undertaking has not obtained taxable income in the first half of 1995, advance payments are not required to be made in August, September, October, November, December of 1995 and in January of 1996. Annual accounts for 1995 and an enterprise income tax declaration shall be drawn up by such taxpayers and submitted to the State Revenue Service by February 1996 and the advance payments for February to April 1996 shall be made in the amount of one twelfth of the tax amount for 1995. Such taxpayers shall retain the right within the terms provided for in Section 22 of this Law to submit adjusted annual accounts and an adjusted tax declaration, however, if the advance payments from February to April of 1996 have been reduced in conformity with the adjusted tax declaration, the taxpayer shall pay the late charges prescribed by the Law On Taxes and Fees for the part of the amount reduced; and

3) the advance payments of tax may also be made in accordance with such procedures by other taxpayers not mentioned in this Clause, if they submit half-yearly accounts and a half-yearly tax declaration.

11. Advance payments of profits tax made in 1995 shall be taken into account in calculating enterprise income tax for 1995, but for the taxpayers mentioned in Clause 12 of these Transitional Provisions – with regard to personal income tax for 1995.

12. With respect to payers of profits tax, who in conformity with the provisions of Section 2, Paragraph four of this Law from the date of coming into force of this Law become personal income tax payers:

a) they shall register by 1 May 1995 with local governments according to their location (legal address) as personal income tax payers;

b) they shall make advance payments of personal income tax in accordance with the Law On Personal Income Tax commencing as of the second quarter of 1995; and

c) advance payments of profits tax made for 1995 shall be taken into account in calculating total personal income tax for 1995.

13. Norms of this Law, the execution of which is regulated by Cabinet regulations, may not be applied until the relevant Cabinet regulations have come into force.
14. Paragraphs eight, nine and ten of Section 6 of this Law are not applicable to loans made before the coming into force of this Law unless they are extended after the coming into force of this Law.
15. The following are repealed as of this Law coming into force:
- 1) the Law On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 3/4, 37/38; 1992, No. 18/19, 27/28; 29/31; 1993, No. 16/17; *Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 1994, No. 2, 12), however, the liability of payers of this tax pursuant to all norms of such Law shall remain in effect for the period up to the day the Law On Enterprise Income Tax comes into force;
  - 2) the 20 December 1990 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 3/4);
  - 3) the 23 January 1991 decision of the Supreme Council of the Republic of Latvia On the Exemption of Some Undertakings of the Production Association LITTA from Profits Tax Payments (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 9/10);
  - 4) the 4 September 1991 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Additions and Amendments to the Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991; No. 37/38);
  - 5) the 12 November 1991 decision of the Supreme Council of the Republic of Latvia On Profits Tax Relief for Undertakings (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1991, No. 47/48);
  - 6) the 15 April 1992 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 18/19);
  - 7) the 16 June 1992 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Amendments and Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 27/28);
  - 8) the 11 July 1992 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Amendments to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 29/31);
  - 9) the 2 December 1992 decision of the Supreme Council of the Republic of Latvia On Additions to the 15 April 1992 Decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1992; No. 51/52);
  - 10) the 31 October 1991 decision of the Presidium of the Supreme Council of the Republic of Latvia On the Application of Section 8 of the 4 September 1991 Law of the Republic of Latvia On Amendments and Additions to the 20 December 1990 Law of the Republic of Latvia On Profits Tax and Clause 2 of the 4 September 1991 decision of the Supreme Council of the Republic of Latvia On the Procedures for Coming into Force of the Law of the Republic of Latvia On Profits Tax.

16. The norms of Section 8<sup>1</sup> shall apply to special reserves established in the years from 1999 to 2008.
17. Section 6, Paragraph 5<sup>1</sup>, the amendments to Section 11, Section 13, Paragraph one, Clause 1, Section 14, Paragraph three and Section 23, Paragraph 3<sup>1</sup> shall apply commencing as of the taxation period of 1999.
18. The taxation period in which securities which are in public circulation in accordance with the Law On Securities are sold and which the tax payer – a domestic undertaking or permanent representative office – has acquired up to 1 January 2001, its taxable income shall be increased by the expenditures in all the previous taxation periods which are related to the acquisition of the referred to securities.
19. The amendments to Section 14 of this Law are applicable to losses that have occurred after 1 January 2001.
20. Cabinet Regulation No. 367 of 24 September 1996, Procedures for the Granting or Cancelling of Permits to Receive Donations, Donors Receiving Enterprise Income Tax Relief to Public Organisations (Funds), Religious Organisations and Budget Institutions, issued pursuant to Section 20 of this Law shall be in force up to the date of the coming into force of the relevant Cabinet regulations, but not longer than until 1 July 2001, insofar as they are not in contradiction with this Law.
21. The amendments to Section 18<sup>1</sup>, Clause 2 of this Law shall be applied to the calculation of enterprise income tax commencing with 1 January 2001.
22. The Cabinet shall by 1 May 2001 determine the procedures as to how Good Manufacturing Practices certificates shall be issued to drug manufacturing undertakings.
23. The amendments to Section 3, Paragraphs one, two, three, eight and ten of this Law shall come into force on 1 January 2004. In the time period from 1 January 2002 up to 31 December 2003, the taxpayers to whom the tax relief specified in Section 17<sup>1</sup> or 18<sup>1</sup> of this Law or in other laws is not applied, the rate of tax shall be determined in the following order:
- 1) from 1 January 2002 the rate of tax is 22 per cent and this rate shall be applied by calculating the tax for the taxation period which begins in the year 2002; and
  - 2) from 1 January 2003 the rate of tax is 19 per cent and this rate shall be applied by calculating the tax for the taxation period which begins in the year 2003.
24. In calculating the advance payments according to the procedures specified by this Law, the advance payments referred to in Paragraph 23 of these Transitional Provisions, which are calculated in respect of the taxation period that commences:
- 1) in 2002, shall have a co-efficient of 0.9 applied;
  - 2) in 2003, shall have a co-efficient of 0.9 applied; and
  - 3) in 2004, shall have a co-efficient of 0.8 applied.
25. Sections 17 and 18<sup>1</sup> of this Law are in force until 31 December 2003.
26. Undertakings that utilise the tax relief specified in Section 17<sup>1</sup> or 18<sup>1</sup> of this Law or in other laws shall, during the time of utilisation of this relief, calculate and pay tax applying a 25 per cent rate.



27. The Cabinet shall by 1 July 2002 issue regulations for the application of Section 2<sup>1</sup>, Paragraph two and Section 22, Paragraph six of this Law

28. The amendments to Section 6, Paragraph one, Clause 7 and Section 14, Paragraph eight of this Law shall be applied to losses from such sale of securities as are in public circulation in accordance with the Law On Securities and which were caused after 1 January 2001.

29. The coefficients specified in Section 6<sup>1</sup>, Paragraph three of this Law shall be applied with the taxation period that commences in 2004. Up to 2004, the coefficients referred to shall be applied in the following specified amounts:

1) in the taxation period that commences in 2002, the following income coefficients shall be applied:

- a) 0.0016 – tonnage from 100 to 1000 tonnage units;
- b) 0.0013 – tonnage from 1001 to 10 000 tonnage units for tonnage that exceeds 1000 tonnage units;
- c) 0.0010 – tonnage from 10 001 to 25 000 tonnage units for tonnage that exceeds 10 000 tonnage units; and
- d) 0,0007 – tonnage over 25 000 for tonnage that exceeds 25 000 tonnage units; and

2) in the taxation period that commences in 2003, the following income coefficients shall be applied:

- a) 0.0018 – tonnage from 100 to 1000 tonnage units;
- b) 0.0015 – tonnage from 1001 to 10 000 tonnage units for tonnage that exceeds 1000 tonnage units;
- c) 0.0012 – tonnage from 10 001 to 25 000 tonnage units for tonnage that exceeds 10 000 tonnage units; and
- d) 0,0007 – tonnage over 25 000 for tonnage that exceeds 25 000 tonnage units.

30. A domestic undertaking (company), which in 2002 has submitted to the State Revenue Service an application for the granting of tonnage taxpayer status for the taxation period that commences in 2002, is entitled from the day of submission of the application not to make any enterprise income tax advance payments in respect of the taxation period for which an application has been submitted, as well as advance payments in the post-taxation period from the first month up to the month in which the undertaking's annual accounts are submitted.

31. A domestic undertaking (company) for which, on the basis of an application submitted in 2002 for the granting of tonnage taxpayer status, the State Revenue Service has granted in 2002 tonnage taxpayer status, shall, in the next month which follows the day of the taking of the relevant decision, commence the payment of tonnage tax advance payments, dividing the amount of tonnage tax anticipated for the taxation period by the payment time periods that are left to the end of the taxation period.

32. If the domestic undertaking (company) has submitted in 2002 an application for the granting of tonnage taxpayer status, but this status is not granted, then the enterprise income tax advance payments not made by this undertaking (company) shall, from the day of the submission of the application up to the day the decision was taken shall be deemed to be late tax payments in accordance with the Law On Taxes and Fees.

33. Paragraph 30 of these Transitional Provisions shall not be applied to taxpayers that have late tax payments for the previous taxation period.

[4 February 1999; 25 November 1999; 23 November 2000; 8 February 2001; 22 November 2001]

This Law shall come into force on 1 April 1995.

This Law has been adopted by the *Saeima* on 9 February 1995.

President

G. Ulmanis

Riga, 1 March 1995

**Transitional Provisions Regarding Amendments  
to the Law On Enterprise Income Tax**

**Transitional Provision**  
(regarding amending law of 29 February 1996)

The tax from payments to non-residents, which is withheld in accordance with Section 3, Paragraph eight of the Law On Enterprise Income Tax, shall be withheld from the payments which are conducted from and after 1 April 1996.

**Transitional Provisions**  
(regarding amending law of 5 June 1996)

1. This Law applies to calculations of taxable income as of the 1996 taxation year.
2. In applying Section 9 of the Law on Enterprise Income Tax, the taxable income may be reduced by the amount of bad debts which have occurred before 1 January 1996 if such amounts have been written off in the financial accounting of the undertaking; notwithstanding, all other conditions of the section mentioned shall be complied with.
3. The norms of Section 6 of this Law (Section 17 of the Law on Enterprise Income Tax) are also applicable to the 1995 taxation year.

**Transitional Provisions**  
(regarding amending law of 13 March 1997)

1. The provisions of this Law apply to the determination of taxable income of an undertaking commencing with 1997, if it is not provided otherwise in these Transitional Provisions.
2. The amendments to Paragraph one, Clause 6 and Paragraph four, Clause 3 of Section 6, and Paragraph one, Clause 2 of Section 9, shall be applied in calculating taxable income for the period commencing as of 1 January 1996.
3. Undertakings providing energy, in calculating tax for 1996, may reduce taxable income, in accordance with procedures prescribed by Cabinet, by the amount that is equal to reserves in their accounting for unrecoverable debts.
4. Amendments to Paragraph two of Section 2 and Paragraphs six and thirteen of Section 6 shall come into force simultaneously with the Law on Private Pension Funds coming into force.

**Transitional Provision**  
(regarding amending law of 10 September 1998)

The provisions of this Law shall be applicable in determining taxable income as of 1 January 1998.